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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

BEC1614 – MICROECONOMICS

(All sections / Groups)

24 OCTOBER 2019
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** pages with **FOUR (4)** questions only.
2. Attempt **ALL** questions
3. Please write your answers in the Answer Booklet provided.

There are **FOUR** questions in this paper. Candidates **MUST** answer **ALL** questions.

Question 1

- (a) i. Define trade-offs and opportunity cost. Provide an example for each term. (5 marks)
- ii. During Kim's birthday, she received RM500 from her parents. She was thinking on how to use the money and she finally reached to two choices: (1) spend the money to buy a new pair of shoes, or (2) save the money in her bank account to earn 5 percent interest a year. If she is a rational person what is the optimal choice? What is the opportunity cost of buying a new pair of shoes now? (5 marks)
- (b) Explain which of the following events will cause the supply or the demand curve of Starbucks vanilla latte to shift or move along its supply or demand curve.
- i. The price of McDonald vanilla latte declines. (3 marks)
- ii. The price of vanilla increases in the global market. (3 marks)
- iii. Starbucks Company replaces the old coffee machines that make the vanilla latte with faster and more efficient coffee machines. (3 marks)
- iv. The Malaysian's income increases due to rapid economic growth. (3 marks)
- v. New government reports revealed that there is a strong connection between coffee and cancer. (3 marks)

[Total: 25 marks]

Question 2

- (a) The Manager of Kim Berhad asked you to analyse an effect associated with a proposed price change. You conducted a survey and realize that if the price of a pack of soft drinks sold by the firm increases from RM5 to RM7, the quantity demanded will decrease from 400 units to 320 units per month.
- i. Use the mid-point formula to calculate the price elasticity of demand for the soft drinks (8 marks)
- ii. Should Kim Berhad raise the price? Explain the economic basis for this recommendation to the Manager. (7 marks)

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- (b) Use the data in Table 1 to explain the economic effects of a price floor at RM3, at RM4, and at RM5. (10 marks)

Table 1

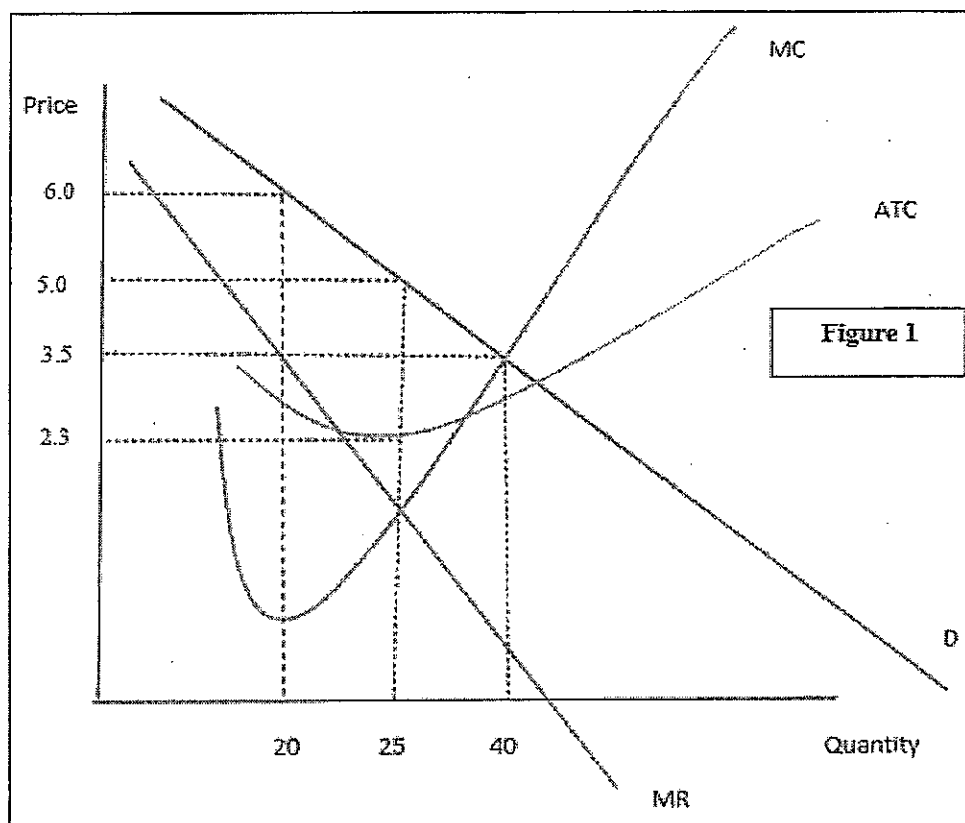
Price (RM)	Quantity demanded	Quantity supplied
5.00	6000	15000
4.00	7000	13000
3.00	8000	11000
2.00	9000	9000

[Total: 25 marks]

Question 3

- (a) Explain how average total cost and marginal cost related to a firm's total revenue and profit. (9 marks)
- (b) Assume that Chon opens a restaurant that sells beef rendang in his hometown in Melaka. Use Figure 1 that show the demand and cost of Chon's beef rendang to answer the following questions:
- Based on Figure 1, is this a perfectly competitive market or a monopolistic competitive market? Explain. (4 marks)
 - How many beef rendang should Chon sell per day, and at what price, in order to maximize his profits? Explain. (6 marks)
 - Based on part (b)(ii), how much profits/loss is Chon making by selling that amount of beef rendang? Explain. (6 marks)

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[Total: 25 marks]

Question 4

- (a) Compare the long-run equilibrium positions of firms in perfect competition and monopolistic competition. Moreover, evaluate the efficiency of producing products in monopolistically competitive markets rather than perfectly competitive markets. (9 marks)
- (b) Suppose Mercedes Benz and BMW compete aggressively in the Malaysian market. Both car companies are thinking whether they should give a rebate of RM10000 for their customers during Chinese New Year or not. Answer the following questions:
- Construct a payoffs matrix using the following scenarios:
 - If both companies give the rebate both will earn RM400 million. (1 mark)
 - If both companies decide not to give the rebate both will earn RM200 million. (1 mark)

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- If Mercedes Benz give the rebate and BMW does not; Mercedes Benz will earn RM800 million and BMW will earn RM100 million. (1 mark)
- If BMW give the rebate and Mercedes Benz does not; BMW will earn RM800 million and Mercedes Benz will earn RM100 million. (1 mark)
- ii. If Mercedes Benz wants to maximize their profit, will the company give the rebate? Explain. (4 marks)
- iii. If BMW wants to maximize their profit, will the company give the rebate? Explain. (4 marks)
- iv. What is the Nash equilibrium of this game? (4 marks)

[Total: 25 marks]

End of paper